

THE PRECARIOUS POLITICS OF SHIFTING DIRECTION:

The Introduction of a Harmonized Sales Tax in British Columbia and Ontario

GEORGE MALCOLM ABBOTT*

IN 2009, THE GOVERNMENTS OF Ontario and British Columbia embraced a tax shift that no other province had attempted for over a decade: the harmonization of their provincial sales taxes with the federal goods and services tax. Harmonization had languished in the policy backwaters of British Columbia and Ontario for almost two decades, spurned and neglected, until it suddenly emerged as *the* policy solution to the challenge of economic competitiveness in a rapidly changing world. In the consistent messaging of the federal government and later of both provinces, harmonization became “the single most important step” provinces could take to enhance competitiveness.¹ Important or not, the harmonized sales tax (HST) proved deeply unpopular.² Yet, despite some similarities between British Columbia and Ontario in the development and implementation of the HST, outcomes differed dramatically. In Ontario, the HST remains intact; in British Columbia, the HST is gone if not forgotten, its demise a consequence of a populist rebellion that found expression through the province’s Recall and Initiative Act. Ironically, the BC HST was undermined by the same objective – deficit containment – that had prompted its adoption.

This article explores two key questions surrounding harmonization. First, why did the Ontario and BC governments, after long opposing harmonization, reel the HST out of the policy stream and place it at the top

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¹ Canada, House of Commons, *Budget Speech 2008*, <http://www.budget.gc.ca/2008/plan/chap3b-eng.asp>.

² Polls consistently showed about 75 percent opposition to the HST in Ontario, compared to 82 to 85 percent in British Columbia. Shortly after the HST announcement, Ipsos Reid reported 85 percent opposition in British Columbia, dropping only slightly to 82 percent a few months later. Barbara Yaffe, *Windsor Star* online, 17 June 2010; Vaughn Palmer, *Vancouver Sun* online, 26 August 2011; and Lee Greenberg, *Vancouver Sun* online, 19 June 2010.

of their respective agendas? British Columbia and Ontario embraced harmonization during the “deepest recession since the Great Depression,”³ a recession that showed no evidence of abating. The recession – with its mounting job losses and collapsing revenue streams – prompted both governments to defy the political risks of harmonization, risks that neither would have taken in more robust economic times. Governments faced a “policy paradox”: the public was asked to embrace a tax shift from business to consumers in the midst of a yawning recession and in apparent contradiction of earlier governmental opposition to harmonization.⁴ The severe fiscal challenges posed by recession demanded a response. Harmonization was one option on a short menu of ugly choices ranging from service cuts to tax hikes. The status quo was not an option. The recession was a “crisis or focusing event”;⁵ it was one of those problems “seen as so pressing that they set agendas all by themselves.”⁶

The second key question is: Why did the HST survive in Ontario but fail in British Columbia? The presence of the Recall and Initiative Act in British Columbia, and the absence of a comparable protest instrument in Ontario, is an obvious and important reason. The Act was created after strong public endorsement in a 1991 referendum; it provided an effective vehicle for expression of public anger over the HST, a threat that the BC government badly underestimated.⁷ Anger was further exacerbated by the timing of British Columbia’s HST announcement, only weeks after a provincial election campaign in which harmonization was never debated. Strict secrecy preceded British Columbia’s announcement. In Ontario, by contrast, Premier Dalton McGuinty used the months prior to the announcement of the HST for strategic consultations to build support for the tax. Ontario’s approach anticipated public ire; British Columbia’s did not.

³ Barack Obama, cited in <http://www.independentopinionproject.com>.

⁴ “Policy paradox” is drawn from Deborah Stone, *Policy Paradox and Political Reason* (New York: Harper Collins, 1988), 1–4. Martyn Brown, Premier Campbell’s chief of staff, retrospectively captured this policy challenge: “The last thing British Columbians expected from the Campbell government, which had made personal tax relief – and household tax relief – so central to its vision, was a tax shift that would increase their tax burden especially in the midst of a recession.” See Martyn Brown, *Towards a New Government in British Columbia*, Kindle ed. (e-Book: Amazon, 2012), Kindle location 619.

⁵ John Kingdon, *Agendas, Alternatives and Public Policies*, 2nd ed. (Boston: Longman’s, 1997), 169.

⁶ *Ibid.*, 198.

⁷ Donald E. Blake, “Value Conflicts in Lotusland,” in *Politics, Policy, and Government in British Columbia*, ed. R.K. Carty (Vancouver: UBC Press, 1996). As noted below, the referendum drew 83 percent voter support and also had strong voter turnout of 74.6 percent. See Tim Mowrey and Alain Pelletier, “Referendum in Canada: A Comparative Overview,” *Electoral Insight* 3, 1 (2001), available at Elections Canada website, <http://www.elections.ca>.

The concurrent introduction of the HST in two provinces provides “a kind of naturally occurring experiment, subjecting polities to common and simultaneous challenge.”⁸ Although tax harmonization was driven by a common economic challenge – a severe recession – the two provinces presented very different HST packages to their citizens. The Ontario government explicitly acknowledged the impact of the HST on consumers and deployed its HST transition grant and other fiscal resources to mitigate that impact. The BC government attempted to extract a supplemental benefit – deficit containment – from harmonization, effectively precluding a more generous HST package.⁹ Ontario’s Liberal government was prepared to incur a ballooning deficit to ease consumer resistance, but British Columbia’s Liberal government was not. The dearth of transition measures strengthened the argument of British Columbia’s HST foes that harmonization was a “tax grab” rather than a fitting response to a deepening recession. In turn, public anger fuelled the remarkable and unprecedented success of the anti-HST movement through the Recall and Initiative Act.

THE ACRONYMS OF ACRIMONY: RST, VAT, PST, GST, MST, AND HST

Governments employ a range of tax measures to generate revenue and most use some form of sales tax to supplement income taxes. Sales taxes are commonly categorized as retail sales tax (RST) or value-added tax (VAT). Provincial sales tax (PST) is an example of an RST; provincial governments determine what goods (and, less commonly, services) will be subject to PST and at what rates. In the absence of specific exemptions, PST is applied to production components (machinery and equipment) as well as to goods subsequently produced for sale. This potential imposition of taxes on taxes is often cited by PST critics as a disincentive to investment in production infrastructure. VATs are designed to avoid such disincentives by focusing the tax impact at the point of consumption rather than at the point of production. VATs such as Canada’s goods and services tax

⁸ Colin J. Bennett, “Comparative Policy Studies in Canada: What State? What Art?” in *Policy Analysis in Canada: The State of the Art*, ed. Laurent Dobuzinskis, David Laycock, and Michael Howlett (Toronto: University of Toronto Press, 1996), 300.

⁹ BC Finance Minister Colin Hansen noted in a letter to the editor, *Prince George Citizen*, 26 November 2009: “Mr. Willcocks says Ontario is doing much to ‘win people over’ – but at what cost? Their revised deficit of \$24.7 billion is almost 10 times higher than our province.” As the recession deepened and the deficit grew well beyond what the \$1.6 billion federal HST grant could close, attention shifted from getting to a \$495 million deficit to longer-term deficit reduction.

(GST) utilize a credit-invoice system to prevent the potential imposition of taxes on taxes.¹⁰

By 2009, approximately 130 countries employed value-added taxation, based on the premise that an increasingly open-border global economy demanded enhanced trade competitiveness. Brian Mulroney's Progressive Conservative government routinely cited Canada's trade competitiveness as the reason for replacing the hidden 13.5 percent manufacturer's sales tax (MST) with the broad-based (and transparent) 7 percent GST in 1990. The BC and Ontario governments employed the same rationale in 2009 to defend the fusion of the federal GST (reduced to 5 percent by 2009) with provincial sales taxes (PSTs of 8 percent in Ontario, 7 percent in British Columbia) to create the harmonized sales tax (HST). Like other VATs, the HST was levied on a broad range of goods and services. The federal tax agreement that underpinned harmonization sharply curtailed provincial tax discretion by imposing a 5 percent cap on total exemptions.¹¹ Critics of value-added taxation argue that it shifts the tax burden from businesses to consumers; adherents respond that "this shift is only superficial since businesses would pass through the tax savings."¹² The BC and Ontario governments faced a daunting challenge in convincing consumers that they too would benefit from harmonization. The HST's impact on consumers was immediate and tangible, while benefits were prospective and conceptual.

The political history of harmonization offered scant comfort to its proponents. The creation of the federal goods and services tax in 1990 was fraught with controversy and contributed to the massive defeat of the Progressive Conservative government in the 1993 federal election.¹³ The first provincial attempt at harmonization also proved controversial.

¹⁰ As an example, under a retail sales tax model like the PST, a cabinet maker pays tax on the raw lumber and then this raw lumber is taxed again when the full value of the cabinet is taxed at final sale. Under VAT, taxes paid during the production process are reimbursed through tax credits. In our example, the raw lumber is only taxed once as the cost of the inputs is not taxed at the final sale.

¹¹ The Comprehensive Integrated Taxation Agreement (CITCA) imposed the 5 percent cap on exemptions. BC Finance Minister Colin Hansen reported in Estimates debate that a fuels exemption cost \$255 million of the \$325 million cap room. See British Columbia, *Debates of the Legislative Assembly*, 23 November 2009, 26. The political implications of this conundrum are discussed below.

¹² Don Drummond and Derek Burleton, *Time for a Vision of Ontario's Economy*, www.td.com/economics, September 2008, 16. The authors cite the harmonization experience of the Atlantic provinces in the 1990s to support their case.

¹³ See, for example, Colin Campbell and William Christian, *Parties, Leaders, and Ideologies in Canada* (Toronto: McGraw-Hill Ryerson, 1996), 58-61; Andre Bernard, "Liberals and Conservatives in the 1990s," in *Canadian Parties in Transition*, 2nd ed., ed. A. Brian Tanguay and Alain-G. Gagnon (Scarborough: Nelson Canada, 1996), 73-88.

The Progressive Conservative government of Saskatchewan announced its intention to harmonize taxes early in 1991 but was defeated in a general election several months later due, at least in part, to an “anti-harmonization backlash.” The incoming New Democratic Party government promptly repealed the blended tax legislation.¹⁴ Tax harmonization enjoyed its first success in 1997 when three Atlantic provinces implemented a blended tax and weathered the ensuing storm of controversy, assisted by a \$961 million transition grant from the federal government.¹⁵

Harmonization gained a higher profile following the election of the federal Conservative government in 2006. Finance Minister Jim Flaherty was a powerful and persistent advocate of harmonization. His first federal budget combined a reduction in the GST with a commitment “to working with the remaining provinces that want to enhance their economic competitiveness and productivity by harmonizing [taxes].”¹⁶ In response to emerging global economic challenges, *Budget 2008* elevated harmonization to “the single most important step provinces . . . could take to improve the competitiveness of Canadian businesses.”¹⁷ Did Flaherty sense that “uncertain times,” a phrase drawn from his budget’s title, might open policy windows in provinces that had previously rejected harmonization?

Neither Ontario nor British Columbia had ever publicly expressed an interest in tax harmonization during the years preceding the recession. Both had responded to these seemingly certain times of economic expansion and budget surpluses by adding a range of ambitious new programs, from early childhood education to expanded primary care. All of those initiatives carried hefty price tags. As recession deepened and revenue streams collapsed, both governments were shaken by the growing realization that there would be no escape from the gut-wrenching choices needed to protect vital programs. There were no easy choices,

¹⁴ Vaughn Palmer, *Vancouver Sun* online, 4 May 2010. Until 1997, “blended” was the term commonly used for harmonization. After 1997, “harmonized” came to replace “blended” as critics too readily attached the moniker “BS Tax” to harmonization proposals.

¹⁵ Karen Howlett and Brian Laghi, *Globe and Mail* online, 26 March 2009. Quebec began collecting provincial and federal taxes in 1992 but without the 5 percent cap on exemptions. When British Columbia and Ontario received their HST transition grant allocations, Quebec demanded \$2.2 billion as well. It received it but only after conforming to the exemption cap. See footnote 69 and Rheal Seguin, *Globe and Mail* online, 30 September 2011.

¹⁶ Canada, House of Commons, *Budget Speech 2006*, available at <https://www.fin.gc.ca/budget06/bp/bpc3b-eng.asp>.

¹⁷ Canada, House of Commons, *Budget Speech 2008*, available at <http://www.budget.gc.ca/2008/plan/chap3b-eng.html>. In *Budget 2007*, Flaherty had committed to protecting provinces from revenue losses during the transition to a harmonized tax. See Canada, House of Commons, *Budget Speech 2007*, available at <http://www.budget.gc.ca/2007/plan/bptoc-eng.html>.

but harmonization at least offered the short-term benefit of federal HST transition grants (\$4.3 and \$1.6 billion for Ontario and British Columbia, respectively) and the prospect of enhanced economic competitiveness in the longer term. John Kingdon argues, “the key to understanding policy change is not where the idea came from but what made it take hold and grow.”¹⁸ Within the Ontario and BC governments, recession is what made harmonization take hold and grow.

HOW THE HST OPTION BECAME ESSENTIAL

As the recession deepened in Ontario, so too did Premier McGuinty’s concern about the economic future of his province. “When you lose 250,000 jobs in short order,” he said, “you sober up very quickly and your choices become much more stark and you recognize that you’re going to have to make some difficult decisions in order to strengthen this economy.” Rocked by rapid job losses, and faced with further economic deterioration, McGuinty “knew for certain it was not business as usual for Ontario any more ... [and] that the HST was no longer an option, but essential.”¹⁹ Ontario faced an economic crisis of uncertain duration, leaving McGuinty in need of a solution to a very large problem. The HST had been in the policy stream for many years, but the economic crisis “caused the agenda to change,”²⁰ elevating the HST from political poison to potential cure for Ontario’s economic woes. The HST was not, he said, “something that we set out to do” but, rather, something “we’d hoped to be able to avoid.”²¹ Despite the ugly politics threatened by its introduction, and an election pending within two years, McGuinty believed harmonization was an economic necessity for his province.

The elevation of the HST to the top of McGuinty’s political agenda was dramatic.²² The premier was greatly influenced by a report, *Time for a Vision of Ontario’s Economy*, by Don Drummond, chief economist with the TD Bank. Drummond argued that Ontario’s manufacturing sector was at risk of succumbing to competition from emerging Asian economies. He concluded: “[A] retail sales tax, where almost half the revenues come from capital and other business inputs, has no place in a modern economy. This major impediment could be addressed by replacing the PST with a

¹⁸ Kingdon, *Agendas*, 72

¹⁹ Robert Benzie, *Toronto Star* online, 30 June 2010.

²⁰ Kingdon, *Agendas*, 173.

²¹ Benzie, *Toronto Star* online, 30 June 2010.

²² This is consistent with Kingdon’s description of shifts in the American political agenda: “Interest does not gradually build in this fashion. Instead of incremental agenda change, a subject rather suddenly ‘hits,’ ‘catches on,’ or ‘takes off’” (Kingdon, *Agendas*, 80).

harmonized GST.”²³ McGuinty met with Drummond, business leaders, and academics on several occasions before concluding: “We’re going to have to do this.”²⁴ In February 2009, Finance Minister Dwight Duncan called his federal counterpart. “I almost fell off my chair,” Jim Flaherty said, recalling the moment, “Bay St. [*sic*] had gotten to McGuinty and convinced him.”²⁵

BC premier Gordon Campbell had no comparable revelatory moment on the road to harmonization. In late January 2009, the premier was told that – in the absence of deep cuts – a recession-driven decline in revenues would necessitate a deficit budget. After more than a decade of disparaging deficit budgets, the Campbell government reluctantly adopted one,²⁶ only two months before the launch of the 2009 provincial election campaign. The timing was problematic. In their 2001 campaign, the BC Liberals attacked the NDP government for “two ‘fudge-it’ budgets” and “countless missed budget forecasts”;²⁷ now the Campbell government was vulnerable to similar charges. During the 2009 campaign, Campbell was repeatedly asked how – given international economic upheaval – British Columbia’s budget deficit could possibly be contained at \$495 million. There was no easy answer. Anxious to avoid the politically disastrous headlines that would follow any expression of doubt, Campbell resolutely dismissed the possibility of a larger deficit.²⁸

Ontario announced its move to the HST two weeks before the writ dropped in British Columbia, but this development drew scant attention during the campaign. Potential harmonization was raised by two of the sectors that feared it most – restaurants and new home construction – but their concerns were quickly dismissed as “not something that is

²³ Drummond and Burleton, *Time for a Vision*, 15.

²⁴ The influence of Drummond and *Time for a Vision* is discussed in Ron Benzie, *Toronto Star* online, 30 June 2010. The critical elements of Kingdon’s agenda-setting model came together: “A problem is recognized, a solution is available, and the political climate happens to be right, all at the same moment” (Kingdon, *Agendas*, 189).

²⁵ Benzie, *Toronto Star* online, 30 June 2010.

²⁶ After meeting his officials and hearing the latest financial projections based on global downturn, Finance Minister Colin Hansen “was faced with a decision to table legislation to allow a deficit that went against what I believed in.” See correspondence with the author, 17 February 2014.

²⁷ BC Liberal Party, *A New Era for British Columbia*, a brochure published by the BC Liberal Party in their 2001 campaign, 7.

²⁸ Campbell’s challenge was exacerbated by the release of more pessimistic forecasts by prominent economists (some of whom were members of the province’s Economic Forecast Council) in the days immediately prior to British Columbia’s 2009 budget. See Vaughn Palmer, *Vancouver Sun* online, 11 December 2009.

contemplated in the BC Liberal platform.”²⁹ Campbell spent much of the campaign defending the new carbon tax rather than discussing a harmonized sales tax. A majority of British Columbians supported the carbon tax when it was unveiled in British Columbia’s 2008 budget, but support waned as gas prices spiked a few months later.³⁰ The carbon tax was particularly unpopular in some regions (notably the Interior and the North) and among some economic sectors (notably agriculture and some export industries), prompting the NDP to make “Axe the Tax” the centrepiece of its 2009 campaign.³¹ Fortunately for Campbell, the NDP’s position prompted harsh and persistent criticism from leading environmentalists that put the party on the defensive.³²

Two days after the BC Liberal re-election on 12 May, Campbell met briefly with Finance Minister Colin Hansen and Deputy Minister of Finance Graham Whitmarsh. He was advised that the deficit was now projected at “between \$1.1 billion and \$1.3 billion.” By Hansen’s account, “to say the Premier was angry would be an understatement.”³³ Questioned later in the legislature, Campbell said that the 14 May meeting occurred “before [he] had even thought about the HST as being a potential solution [to budget woes].”³⁴ He ordered Finance officials to “go out and find out how we are going to meet the budget target of \$495 million.”³⁵

The escalating deficit made a collision of political principles inevitable. After winning office in 2001, the Campbell government introduced, with much fanfare, the Balanced Budget and Ministerial Accountability Act. A ballooning deficit was inconsistent with this statute and with the explicit order from the Premier. Efforts to reduce expenditures and contain the deficit were launched immediately after the 2009 election, but spending cuts were quickly dwarfed by revenue losses.³⁶ For over

²⁹ The dismissal came from BC Liberal headquarters. See Palmer, *Vancouver Sun* online, 18 February 2012.

³⁰ It enjoyed initial support of 54 percent, slipped below 40 percent support in the summer of 2008, then rebounded to 42 to 43 percent by the 2009 election. See Kathryn Harrison, “A Tale of Two Taxes: The Fate of Environmental Tax Reform in Canada,” *Review of Policy Research* 29, 3 (2012): 391–401.

³¹ Chelsea Peet and Kathryn Harrison, “Historical Legacies and Policy Reform: Diverse Regional Reactions to British Columbia’s Carbon Tax,” *BC Studies* 173 (Spring 2012): 97.

³² As Harrison, “Tale of Two Taxes,” 399–401, points out, the economy was front and centre in the minds of voters in the 2009 election, an area where the BC Liberals enjoyed a strong advantage over the NDP.

³³ Correspondence with the author, 17 February 2014.

³⁴ British Columbia, *Debates of the Legislative Assembly*, 25 November 2009, 2806.

³⁵ Vaughn Palmer, *Vancouver Sun* online, 21 April 2010; and British Columbia, *Debates of the Legislative Assembly*, 24 November 2009, 2758.

³⁶ British Columbia, *Debates of the Legislative Assembly*, 25 November 2009, 2742. British Columbia’s deficit for 2009–10 ultimately reached \$1.864 billion inclusive of a portion of the

a decade, the Campbell government had also extolled the principle of “protecting Health and Education budgets.”³⁷ Because these two sectors accounted for well over half of provincial expenditures, the prospects of finding the required expenditure reductions within other, smaller ministries were remote at best. Raising existing sales, income, and corporate taxes was considered not only as counterintuitive in recessionary times but also as inconsistent with the government’s oft-repeated mantra about the benefits of lower taxes. Ministry officials uncovered no easy answers and responded with three basic options: raise taxes, impose further spending cuts, or reconsider harmonization. The latter option would greatly expand the range of taxable goods and services, but these changes could (and would) be portrayed as essential to economic competitiveness. Extrapolating from the agreement reached by Ontario, harmonization might also yield as much as \$1.6 billion in new federal transition funding. “That’s what got our attention,” Hansen noted, “And that’s what started the whole serious look at whether or not we should reconsider [harmonization].”³⁸

According to Hansen, the Ministry of Finance considered harmonization “in advance of every budget,” but the decision was always “that we not pursue the Harmonized Sales Tax.”³⁹ Instead the province had worked “to simplify, streamline and enhance the fairness” of the PST through a sales tax review launched in 2005.⁴⁰ The ministry was so accustomed to writing anti-HST briefing notes that, as late as 3 April 2009, it reiterated “the very real challenges” of harmonization, including “a loss of provincial flexibility, the real and perceived shift in tax burden from business to individuals, lack of support from some business sectors, the need to protect low-income individuals and families from tax increases, and the need to ensure adequate provincial revenues.”⁴¹ Government’s official view of harmonization shifted dramatically on 23 July. Mere weeks

HST grant.

³⁷ See, for example, the BC Liberal 2001 election platform in BC Liberal Party, *New Era for British Columbia*, 16 and 23.

³⁸ Vaughn Palmer, *Vancouver Sun* online, 3 September 2010. In a “water cooler chat” with Flaherty at a federal-provincial meeting on 24 May 2009, Hansen confirmed that British Columbia could expect the same HST deal as Ontario. See Vaughn Palmer, *Vancouver Sun* online, 21 April 2010. The budget options were not mutually exclusive and could be considered in combination.

³⁹ British Columbia, *Debates of the Legislative Assembly*, 25 November 2009, 2810. The BC Chamber of Commerce had recommended tax harmonization to the legislature’s finance committee in 2006 and 2007. See Palmer, *Vancouver Sun* online, 28 July 2009.

⁴⁰ The government claimed it was the “most extensive sales tax review ever undertaken in this province.” It included extensive consultations across the province. See Palmer, *Vancouver Sun* online, 24 July 2009.

⁴¹ Vaughn Palmer, *Vancouver Sun* online, 16 September 2010 and 28 July 2009.

after the 2009 election, British Columbians were now told that the PST was “an outdated, inefficient and costly tax” and that harmonization was “the biggest single thing we [could] do to improve BC’s economy.”⁴²

Harmonization was also the biggest single thing that could close the gap between British Columbia’s mounting deficit and the \$495 million budget target. When cabinet was sworn in on 10 June, Hansen was projecting a deficit of \$495 million, but this was contingent upon the as yet undisclosed introduction of the HST.⁴³ His optimism evaporated as the recession deepened and revenues plummeted. By 10 July, the deficit shortfall was beyond what even \$1.6 billion could close.⁴⁴ By that date, harmonization had acquired a momentum of its own. Hansen was convinced not only that harmonization was essential to economic competitiveness but also that British Columbia needed to implement the HST “on the same day as Ontario.”⁴⁵ For Hansen’s cabinet colleagues, harmonization promised an earlier return to economic stability and, just as important, \$1.6 billion in relief from deeper budget cuts.⁴⁶ By the time of the 23 July HST announcement, Campbell and his cabinet anticipated a return to balanced budgets by 2013, in part through strategic budgetary deployment of the \$1.6 billion transition grant. They badly underestimated the intensity of public anger that would be generated by their unexpected announcement, setting the stage for “a grassroots rebellion of unprecedented proportions.”⁴⁷

⁴² British Columbia, Office of the Premier, news release, “Harmonized Sales Tax to Boost Investment, Job Creation,” 23 July 2009, 1. Available at www.aspect.bc.ca/.../harmonized-sales-tax-boost-investment-job-creation.

⁴³ Hansen counted on reducing the deficit via the federal HST grant because “[he] knew [he] would be recommending the HST to [his] cabinet colleagues” (Palmer, *Vancouver Sun* online, 11 December 2009).

⁴⁴ *Ibid.* On 10 July, Hansen disclosed: “I am not optimistic at all that a \$495 million number is anywhere near possible.” The \$1.6 billion federal grant was ultimately distributed over three budget years.

⁴⁵ British Columbia, *Debates of the Legislative Assembly*, 23 November 2009, 2691. In correspondence with the author, 17 February 2014, Hansen added, “As the world economy was going through meltdown, we had to position ourselves for the uptick and going to a VAT would be huge in our ability to ride that wave.”

⁴⁶ A 2009 government pamphlet, printed but never publicly released, asked: “Why did the government bring in the HST so quickly?” Its answer: “After the 2009 election, government was informed that provincial revenues were deteriorating. Government looked for a way to meet budget targets without cutting core services.” Cited in Palmer, *Vancouver Sun* online, 31 January 2012.

⁴⁷ Vaughn Palmer, *Vancouver Sun* online, 19 May 2010.

MARKETING THE HST IN ONTARIO AND BRITISH COLUMBIA

Ontario announced harmonization in its budget of 26 March 2009. The HST was framed as one element in a much larger package of tax reductions and reforms. This approach drew lessons from the Mulroney government's introduction of the GST in 1990.⁴⁸ The federal Conservatives introduced income tax cuts before the 1988 federal election rather than combining them with the introduction of the GST in 1990. Finance Minister Duncan believed government should "soften the blow" of broad-based goods and services taxes with tax cuts and transition cheques. In comparing the adverse HST experience of British Columbia with the relative success of Ontario, Duncan noted: "I think we just laid the groundwork differently ... Whenever it's taken hold and there's been political success subsequent to doing it, it's because you had the right package."⁴⁹ Premier McGuinty's comparison was more pointed: "We made a different choice than the one they made in BC. We decided to take the \$4 billion [federal HST transition grant] ... and pass that directly through to the people of Ontario to help them manage under the HST."⁵⁰

Ontario's HST package included \$6.6 billion in "temporary and permanent tax relief for people over three years to help consumers through the transition." Families with annual incomes of less than \$160,000 also received payments of up to one thousand dollars "to help them adjust to the new single sales tax," at a cost of \$4 billion. The package also offered a "lifeline to business" through a further \$4.5 billion in tax cuts, bringing the total to just over \$15 billion.⁵¹ The McGuinty government's determination to adopt the HST was further emphasized by its assertion that tax measures, including the HST, would actually reduce Ontario's revenues by \$2.3 billion over four years.⁵² To justify this step, Duncan stressed: "Ontario does not control monetary policy. It does not control international markets. It cannot affect the global economic downturn." He insisted that reform of Ontario's tax system was "the single most ef-

⁴⁸ Maria Babbage, *Canadian Press* online, 4 November 2010.

⁴⁹ *Ibid.*

⁵⁰ *Canadian Press*, published in *Kamloops Daily News* online, 9 June 2010.

⁵¹ Ontario, Ministry of Finance, news release online, "Ontario Budget Creates Jobs for Families Today and Builds Economy for Tomorrow," 26 March 2009. See also Ontario, Ministry of Finance, *Budget 2009: Backgrounder* online, "Comprehensive Tax Reform Package," 26 March 2009.

⁵² Their calculation included the \$4.3 billion federal transition grant. Ontario, Ministry of Finance, *Budget 2009* online, "Chapter 1: Confronting the Challenge: Building Ontario's Economic Future," 26 March 2009.

fective step the government [could] take to help create jobs and position the economy for future growth.”⁵³

Ontario’s narrative anticipated criticism of the tax shift from business to consumers, and it invoked the claim of the Drummond report: “In the first year, 80 per cent of the savings generated by business are passed to consumers. By year three, 95 per cent ... are passed onto consumers.”⁵⁴ Ontario’s \$4 billion in “transitional cash payments” provided a vital link between the immediate and tangible HST burden on consumers and the conceptual and prospective economic benefits of harmonization. In short, the one-thousand-dollar cheques to families aimed to bridge the gap between immediate pain and future benefit, a gap that became a yawning chasm in British Columbia. Nearly nine months after their HST announcement, the McGuinty government added a final, symbolic, and populist element to its narrative: newspapers, and food and beverage purchases under four dollars, would be exempt from HST.⁵⁵ From beginning to end, Ontario’s marketing narrative aimed to placate and reassure consumers while underlining the necessity for harmonization as a “lifeline” to struggling businesses.

One major newspaper described British Columbia’s HST campaign as a “textbook example of how not to introduce a tax.”⁵⁶ Premier Gordon Campbell and his government underestimated both public opposition to the HST and the extent to which that opposition could be marshalled under the Recall and Initiative Act. BC’s HST package incorporated none of the harsh lessons of the Mulroney GST experience in 1990. Ontario framed its federal HST grant as “transitional support” for families, whereas British Columbia framed its grant as a “recognition of the improvement this change will make to business competitiveness in Canada.”⁵⁷ Ontario used tax cuts and other mitigation measures to “soften the blow” to consumers; in the absence of such measures, British Columbia – driven by deficit containment – relied on public recollection of its 2001 tax cuts. British Columbia’s case for harmonization failed to recognize that “supply of a technically proficient solution to a policy problem is

⁵³ Ibid.

⁵⁴ Ontario, Ministry of Finance, news release online, “HST Cuts Red Tape, Creates Jobs,” 4 June 2010. See also interview with Dalton McGuinty in *Ottawa Citizen* online, 6 December 2009.

⁵⁵ Jordana Huber, *National Post* online, 13 November 2009.

⁵⁶ Ian Bailey, *Globe and Mail* online, 26 August 2010.

⁵⁷ British Columbia, Office of the Premier, news release, “Harmonized Sales Tax to Boost Investment, Job Creation,” 23 July 2009, 2. Available at www.aspect.bc.ca/.../harmonized-sales-tax-boost-investment-job-creation.

not a sufficient condition to produce a politically effective demand.”⁵⁸ The HST was advanced as a proficient solution to an ostensibly critical problem – a tax-induced decline of competitiveness – that government had never previously identified as a problem.

British Columbia’s HST announcement reflected the haste with which it was prepared and communicated. Early in September 2009, Colin Hansen conceded that the HST launch had not gone well.⁵⁹ There was, he added retrospectively, “a total disconnect between MoF [Ministry of Finance] and the Premier’s Office with regard to who was driving the communications/strategic planning on the post-announcement communications about the HST.”⁶⁰ This confusion was exacerbated by a recent recession-driven cut, from \$26 million to \$8 million, in the government’s communications budget.⁶¹ Ineffective communication impaired a mission that was already daunting: British Columbians were being asked to accept a new tax on a broad range of goods and services, without any consultation and little transitional support, by a government that had never publicly uttered a word of affection for that tax.

Vital lessons that might have been learned from the launch of the carbon tax – recent and determined advocacy from non-governmental sources, a well-articulated communications plan, and incentives to ease transition – were overlooked.⁶² Yet the carbon tax may also have contributed to the eventual failure of the HST. The BC Liberal government was re-elected despite public anger over the carbon tax, Hansen recently noted, and that may have “reinforced the notion that the public will get over it [anger at the HST] eventually.”⁶³ Further, a five-cent-per-litre carbon tax increase on fuel was slated for 1 July 2010, coincidentally the implementation date for the HST. Government faced a nasty conundrum: Should it apply the HST on top of these pending carbon tax increases? The decision to exempt fuels from HST lessened political pain but

⁵⁸ Richard Rose, “What Is Lesson-Drawing,” *Journal of Public Policy* 11 (1991): 27.

⁵⁹ Les Leyne, *Victoria Times-Colonist* online, 12 September 2009.

⁶⁰ Colin Hansen, correspondence with the author, 17 February 2014.

⁶¹ *Ibid.* “One of my regrets – in hindsight – is that I did not find the dollars necessary to properly explain the HST merits to the public,” Hansen noted.

⁶² See footnotes 34, 35, and 36. The carbon tax was explicitly designed to be revenue neutral, with revenue gains offset by other tax rate reductions. One pollster described the carbon tax launch as “a monumental communications triumph, aided by carefully planned photo-ops, images of the province’s majesty and slogans meant to motivate people to act in order to save the planet. A \$100 rebate cheque was mailed to every taxpayer” (Mario Canseco, *Globe and Mail* online, 4 April 2013).

⁶³ Colin Hansen, correspondence with the author, 17 February 2014.

consumed almost 80 percent of the exemption room permitted under the tax agreement.⁶⁴

Just as the demand for deficit containment crowded out generous transition measures, so the fuels exemption left little room for other strategic exemptions. British Columbia was the first province obliged to add a tax on restaurant meals through harmonization (other provinces had pre-existing sales taxes on meals). High-profile PST exemptions for bikes and bike helmets, featured in past budget speeches, were also lost. British Columbia's HST package heavily emphasized the \$2 billion in savings to business but failed to explain the complex linkage between value-added taxes and export competitiveness, jobs, and public services to a sceptical public.

BUSINESS AND TAX HARMONIZATION

Dwight Duncan's harmonization narrative evoked the image of Ontario businesses, reeling from world recession, falling further behind aggressive international competition. In contrast, British Columbia's communication package ignored the global recession; instead, Colin Hansen invoked the threat of a more competitive Ontario exploiting tax harmonization to lure corporate investment away from British Columbia. "BC cannot be left behind," was his rallying cry for harmonization.⁶⁵

Opinions within community-based small business groups like the BC Chamber of Commerce were mixed, even though the chamber collectively supported harmonization.⁶⁶ BC business sectors that feared the HST – notably tourism, real estate, restaurants, and home construction – were far more vocal than were those that supported it. In 2008, Campbell had responded (and, just as important, was seen to be responding) to high-profile demands from economists, academics, and environmentalists for a carbon tax; after its creation, the same groups vigorously defended it.⁶⁷ In stark contrast, the Campbell government's

⁶⁴ Colin Hansen reported in Ministry of Finance Estimates debate that the fuels exemption cost \$255 million of the \$325 million cap room. See British Columbia, *Debates of the Legislative Assembly*, 23 November 2009, 26. The federal tax agreement imposed a 5 percent cap on exemptions.

⁶⁵ Patrick Brethour, *Globe and Mail* online, 23 July 2009.

⁶⁶ Robert Benzie, *Toronto Star* online, 25 September 2009, reported that a survey of 2,991 members of the Canadian Federation of Independent Business (generally small business) found that 75 percent were concerned about the impact of the new tax on their businesses (though this may or may not be reflective of opposition to it). The BC Chamber of Commerce issued a news release in August 2009 that welcomed the HST announcement.

⁶⁷ Peet and Harrison, "Historical Legacies and Policy Reform," 100-01.

unilateral and secretive introduction of the HST caught even long-term advocates by surprise and left the initiative with little organized support.

Constrained by parliamentary custom, neither Dwight Duncan nor Colin Hansen gave any hint of the impending HST prior to its formal announcement.⁶⁸ In Ontario, however, Premier McGuinty engaged in informal consultations and offered strategic public comments on the HST months before its announcement. As early as 24 January 2009, McGuinty told reporters that Ontario needed to “take a long, hard look” at its position on tax harmonization.⁶⁹ Two weeks later he told a news conference: “There seems to be an emerging consensus around harmonization.” He added, consistent with earlier messaging: “[While] not committing to doing it ... we owe it to ourselves to take a good, long hard look at that.”⁷⁰ In Question Period on 11 March, he again noted persistent business advocacy for harmonization and the need to enhance the “competitiveness of our businesses.”⁷¹ And in response to Opposition accusations just before budget day that “very high-level talks” with the federal government on harmonization were “already under way,” McGuinty noted that he “[was] receiving strong requests from the business community” and acknowledged that “there ha[d] been some high-level discussions.”⁷²

By contrast, British Columbia’s move toward the HST was cloaked in secrecy. “The business community was almost as surprised by word of the new tax as the opposition, the news media and the public,” as political columnist Vaughn Palmer saw it: “The Liberals kept their intentions under wraps, letting key business leaders know just hours before the press conference.”⁷³ Whether by design or by neglect, not even long-term supporters of harmonization were on hand to support the premier and finance minister in announcing the HST. Business leaders took a full month to assemble a pro-HST coalition, then appeared to sit back and wait as anti-HST forces rallied. Jock Finlayson of the BC Business Council suggested that many supporters believed “the government ha[d] taken a tough step in terms of the politics of this,” and concluded that there would be “no wavering.” Similarly, John Winter of the BC Chamber

⁶⁸ Hansen cited his concern regarding a finance minister’s premature discussion of potential or pending tax changes prior to formal announcement. See Colin Hansen, correspondence with the author, 17 February 2014.

⁶⁹ Karen Howlett, *Globe and Mail* online, 24 January 2009.

⁷⁰ Robert Benzie, *Toronto Star* online, 8 February 2009.

⁷¹ Ontario, *Debates of the Provincial Parliament*, 11 March 2009, 1050.

⁷² *Ibid.*, 24 March 2009, 1040.

⁷³ Vaughn Palmer, *Vancouver Sun* online, 1 September 2009.

of Commerce felt that “the fight was over ... [and that] people ha[d] recognized the inevitability of this.”⁷⁴

Belatedly, the government’s Public Affairs Bureau appealed for expressions of support that could be included in a brochure defending the HST initiative. This brochure had a short and troubled history. Written and produced for public distribution, it was ruled illegal by Elections BC and all but a few copies were shredded; it was eventually released under a Freedom of Information application. The brochure addressed the question that dominated much of the public discourse on the HST: “How could this happen so quickly if the government wasn’t planning it?” The answer: “In June 2009, it was clear that BC could piggyback on ... [the Ontario HST] agreement and that the same agreement would be available if BC acted [in announcing the intention to harmonize taxes] by mid-July. Otherwise we would have to wait two years.”⁷⁵ The haste to meet deadlines and keep pace with Ontario left the BC government almost as unprepared to deliver the harmonization message as business and the public were to receive it.

HARMONIZATION IN BRITISH COLUMBIA: A TOUGH SELL TO A SCEPTICAL PUBLIC

The 2010 deadline left only a few short weeks for potential consultation with the public, too short an interval in Premier Campbell’s view.⁷⁶ Nor did he offer a grave “fireside chat,” sharing the stark choices facing British Columbia and its government in a world that was increasingly gripped by recession.⁷⁷ Eschewing this left British Columbians no opportunity to understand and debate the choices that had to be made. In the debate

⁷⁴ Finlayson and Winter are both quoted in Justine Hunter, *Globe and Mail* online, 8 April 2010. Support of these business umbrella groups as well as export-oriented economic sectors – such as mining, forestry, and agriculture – was effectively galvanized through the pro-HST Smart Tax Alliance prior to the 2011 referendum but not during the anti-HST initiative petition drive in the spring of 2010.

⁷⁵ Vaughn Palmer, *Vancouver Sun* online, 31 January 2012. In 2014, Colin Hansen stated: “[The] federal government wanted us to announce it even sooner. They told us (at the officials’ level) that if we did not get to an implementation phase asap, then we could not be part of the Ontario implementation schedule.” And failure to meet that schedule meant that “it would be at least two years before they would have the capacity to entertain another province going through the transition to HST” (correspondence with the author, 17 February 2014).

⁷⁶ In a televised address just days before his resignation, Campbell argued: “To be candid, there wasn’t any time for consultation.” See Les Leyne, *Victoria Times-Colonist* online, 28 October 2010.

⁷⁷ A “fireside chat” was far from risk-free. Such a chat would undoubtedly have triggered a new and unwelcome round of questions and accusations related to the \$495 million deficit claim; on the other hand, all provinces (except Saskatchewan) were publicly reporting rapidly mounting deficits during this period.

that followed the announcement of the HST, critics were not obliged to weigh alternatives (bigger deficit, spending cuts, higher taxes, or the HST). They had the luxury of focusing exclusively on the government's choice – the HST.

Given the apparent tax shift from business to consumers, the HST was a tough sell in any jurisdiction. It was particularly so in British Columbia. A quantitative analysis of nationwide electoral surveys from 1965, 1968, and 1974 consistently found British Columbia “to have the greatest proportion of respondents with a strong sense of efficacy.”⁷⁸ A 1985 study of political attitudes and behaviour among BC voters, conducted by Donald Blake, concluded that “a significant populist residue remains affecting the style of politics as well as its substance.”⁷⁹ Revisiting the subject a decade later, Blake notes: “British Columbians continue to exhibit higher levels of political efficacy than other Canadians,” and he again concludes that populism “remains a significant feature of the provincial value pattern.”⁸⁰ The Recall and Initiative Act, which provided a statutory instrument to capture and channel public discontent, is itself reflective of populism: the 1991 referendum that triggered its creation drew 83 percent voter support, along with very strong voter participation at 74.6 percent.⁸¹

Once aroused, populism was a powerful force. The Campbell government's claim of business tax savings through harmonization quickly became the centrepiece of an anti-HST campaign denouncing a “\$2 billion tax shift from business to consumers.” Despite its launch in the normally quiet mid-summer news period, the HST announcement produced a prompt and visceral reaction.⁸² As one observer suggested, “Campbell and Co. just hit that populist nerve and woke the raging dragon.”⁸³ Anger did not abate in the months that followed. The “Fight HST” petition was launched in April 2010, powered by over six thousand volunteer canvassers; ninety days later, the Fight HST group had secured

⁷⁸ Richard Simeon and David Elkins, “Provincial Political Cultures in Canada,” in *Small Worlds: Provinces and Parties in Canadian Political Life*, ed. D. Elkins and R. Simeon (Agincourt: Methuen, 1980), 40.

⁷⁹ Donald Blake, *Two Political Worlds: Parties and Voting in British Columbia* (Vancouver: UBC Press, 1985), 11.

⁸⁰ Donald Blake, “Value Conflicts in Lotusland,” in *Politics, Policy, and Government in British Columbia*, ed. R.K. Carty (Vancouver: UBC Press, 1996), 16.

⁸¹ Tim Mowrey and Alain Pelletier, “Referendum in Canada: A Comparative Overview,” *Electoral Insight* 3, 1 (2007). Available online at Elections Canada website, <http://www.elections.ca>.

⁸² Shortly after the HST announcement, Ipsos Reid reported 85 percent opposition in British Columbia, dropping only slightly to 82 percent a few months later. See Barbara Yaffe, *Windsor Star* online, 17 June 2010; Vaughn Palmer, *Vancouver Sun* online, 26 August 2011; and Lee Greenberg, *Vancouver Sun* online, 19 June 2010.

⁸³ Reg Whittaker, cited in Barbara Yaffe, *Windsor Star* online, 17 June 2010.

557,383 signatures demanding an end to the HST, well above the threshold for triggering a referendum on the matter.⁸⁴

To succeed, a referendum under the Recall and Initiative Act requires the support of more than 50 percent of all registered voters across the province plus more than 50 percent of all registered voters in two-thirds of all ridings, regardless of the number who actually vote. When questioned about these requirements, Campbell declared: "If 50 per cent of the people who show up at the polling booths next September say they want to get rid of an HST then certainly, as a government, I would want to get rid of the HST."⁸⁵ With this single and apparently unscripted comment, he effectively moved the threshold for approval of the initiative from 50 percent plus one of *all* registered voters (whether they voted or not) to 50 percent plus one of voters who cast a ballot. In the final count, just 52 percent of all voters cast ballots and, of those, 54.7 percent voted to extinguish the HST.⁸⁶ This was well short of requirements under the statutory provisions of the act.⁸⁷ Gary Mason made the point bluntly: "We mustn't forget that the anti-HST forces would have lost this vote had Mr. Campbell, in an act of thoughtless desperation, not changed the referendum rules to make it far easier for the tax opponents to win ... Gordon Campbell almost single-handedly killed the HST."⁸⁸

According to Bill Tieleman, a key organizer and leader of Fight HST, the movement was "very surprised and delighted" by this unilateral shift on extinguishment. A prominent social media blogger, he launched a "No BC HST" Facebook page in the immediate wake of the government's 23 July HST announcement. Within three days, over four hundred people had signed on in support; one month later, support had grown to 125,000. Tieleman also reached out to Bill Vander Zalm, a former Social Credit

⁸⁴ To be successful the petition required the support of at least 10 percent of the registered voters in each of British Columbia's eighty-five electoral districts. See Elections BC news release, "Application for HST Initiative Approved," 4 February 2010. Available at www.elections.bc.ca/News. See also David Douglas Robertson, "Policy Forum: Comparing the Introduction of the HST in British Columbia and Ontario – Lessons from the Political Trenches," *Canadian Tax Journal* 60, 1 (2012): 118.

⁸⁵ *CBC News* online, 13 September 2010. A legislative committee, including a BC Liberal majority, had just reported its recommendation that the issue go to referendum under the provisions of the act.

⁸⁶ Elections BC, *Report of the Chief Electoral Officer on the 2011 HST (Harmonized Sales Tax) Referendum*, 15 November 2011. www.elections.bc.ca/docs/rpt/2011-CEO-HST-Referendum-Report.pdf. Several factors may have contributed to the closer-than-expected vote: substantial new incentives announced prior to the 2011 mail-in ballot referendum, the form and timing of the ballot, improved organization by the pro-HST forces, and Campbell's departure.

⁸⁷ Based on a 52 percent participation rate among all registered voters, 54.7 percent of votes cast would equate to 28.5 percent of registered voters, well below the statutory threshold.

⁸⁸ Gary Mason, *Globe and Mail* online, 26 August 2011.

premier, shrewdly recognizing the potential of their sharply divergent partisan roots. They met in August at a Vancouver restaurant and Fight HST was born. Both realized that Fight HST “had to be a left-right combination to be successful,” and both sought to “bring bitter political enemies together under a very large tent.”⁸⁹ Fight HST brought together the populist right – of which Vander Zalm was the conspicuous face – and the political left, represented not only by the NDP but also by organized labour. Public-sector unions – notably the BC Teachers’ Federation (BCTF) and the Canadian Union of Public Employees – were prominent in British Columbia’s anti-HST movement.⁹⁰ Private-sector unions were less visible and vocal, but most, like the United Steelworkers, opposed the HST.⁹¹

Organized labour’s antagonism toward the BC HST may have arisen from a number of sources,⁹² but the differences between provincial HST packages was not lost on the unions. Marc Lee, a senior economist for the Canadian Centre for Policy Alternatives, provided his analysis of the HST in the May/June 2010 edition of the BCTF’s *Teacher Newsmagazine*. “In principle there is nothing wrong with a harmonized tax,” he wrote, citing benefits that have drawn many jurisdictions to value-added taxes: “For example, in Nordic countries, HST-like taxes are progressive because they are used to support decent public services and reduce poverty.” Lee was sharply critical of the Campbell government’s failure to replicate “transfers to Ontario households,” noting that federal transitional funds were “simply being used to reduce deficits over the next three years, not to ensure an equitable transition.”⁹³ Would a more generous BC HST package have improved the disposition of British Columbia’s unions towards harmonization? Ontario’s experience suggests such generosity may at least have moderated passions and slowed coalition-building at Fight HST.

⁸⁹ Bill Tieleman, interview with the author, 8 January 2014.

⁹⁰ Ibid. See also Elections BC, *Report of the Chief Electoral Officer on the Initiative Petition: “An Initiative to End the Harmonized Sales Tax (HST)”*, 8 November 2010, 20–21. www.elections.bc.ca/docs/rpt/ip2010-002-ceo-report.pdf.

⁹¹ *Steel This Week*, 13 January 2011, available at www.usw.ca/districts/3/publications?id=004.

⁹² Among contributing elements to consider are political culture, the relative weakness of the manufacturing sector in the BC economy, and the bitter battles arising over British Columbia’s bills 27, 28, and 29 of 2002.

⁹³ Marc Lee, “BC and the HST,” *Teacher Newsmagazine* 22, 7, May/June 2010, 1. The CCPA also assessed Ontario’s HST in a publication revealingly entitled *Not a Tax Grab After All*. Its principal finding was that the net combined effect of all the changes was “very close to neutral.” See Ernie Lightman and Andrew Mitchell, *Not a Tax Grab After All: A Second Look at Ontario’s HST* (Ottawa: Canadian Centre for Policy Alternatives, 2009), 4.

HARMONIZATION IN ONTARIO:
NEITHER ROILING MOBS NOR CELEBRATORY PARADES

The HST was only marginally more popular (or, more precisely, less unpopular) in Ontario than in British Columbia.⁹⁴ Ontario's opposition parties predictably opposed harmonization and attempted to rally public support behind them, with some success.⁹⁵ Liberal MPPs experienced a backlash from some constituents following the budget announcement, leading to at least one special caucus meeting devoted to the tax. Behind closed doors, some MPPs reportedly advocated a reduction in the pending HST from 13 percent to 12 percent,⁹⁶ but McGuinty was unmoved. "We have a plan in place and we're going to stick to that plan," he said, while acknowledging the HST's unpopularity: "It's not the kind of thing [that] I believe will lead Ontarians to lift me on their shoulders and parade me down the streets to great acclaim."⁹⁷ Despite the efforts of opposition parties, and despite the vocal concerns of some economic sectors,⁹⁸ Ontario's anti-harmonization movement gained far less traction than its BC counterpart. One newspaper columnist claimed the Ontario HST was greeted "with a collective shrug,"⁹⁹ while others variously described public opposition as "muted by comparison,"¹⁰⁰ "much less visceral,"¹⁰¹ and much less controversial than in British Columbia.¹⁰² What accounts for the less vociferous reaction to harmonization in Ontario?

Part of the answer lies in the quiet acquiescence to harmonization of Ontario's unions, most notably the Canadian Auto Workers Union (CAW). Ontario's manufacturing sector is far larger, numerically and proportionately, than is that of British Columbia, and its private-sector unions reflect that size and strength within the Ontario labour movement. The large and powerful CAW regarded harmonization in quite a different light than did BC unions. Although it never explicitly endorsed the HST, the CAW understood and articulated its benefits. "The HST will deliver a

⁹⁴ Polls consistently showed about 75 percent opposition to the HST in Ontario, compared to 82 to 85 percent in British Columbia. See footnotes 2 and 93.

⁹⁵ For example, over 300,000 signed the NDP's anti-HST petition.

⁹⁶ Rob Ferguson and Robert Benzie, *Toronto Star* online, 28 August 2009.

⁹⁷ Robert Benzie, *Toronto Star* online, 27 August 2009.

⁹⁸ The Ontario Real Estate Association, for example, was a vocal opponent. See Ontario Real Estate Association release "Sales Tax Harmonization Will Hurt Resale Home Market," 28 March 2009. Available at www.newswire.ca/.../sales-tax-harmonization-will-hurt-resale-home-mar... Some, like the Bowling Proprietors Organization, spoke in opposition at public hearings. See Rob Ferguson and Robert Benzie, *Toronto Star* online, 4 December 2009.

⁹⁹ Adam Radwanski, *Globe and Mail* online, 17 June 2010.

¹⁰⁰ Barbara Yaffe, *Windsor Star* online, 17 June 2010.

¹⁰¹ Romina Maurino, *Canadian Press* online, 26 August 2011.

¹⁰² Karen Howlett and Robert Matas, *Globe and Mail* online, 13 November 2009.

benefit to Ontario's hard-hit manufacturing sector in several ways," CAW economist Jim Stanford advised his colleagues. After consulting with the CAW's National Executive Board and public-sector union leaders, Stanford recommended against "CAW locals, retired worker chapters, or activists participat[ing] in the various anti-HST activities which will be organized by the opposition parties in the coming months."¹⁰³

CAW president Ken Lewenza bluntly asked his members not to "buy into this tax rage." He continued: "Because if you do, as progressives, we will be destroyed because you need taxes for a just society ... At the end of the day this is not an issue that the labour movement should take on."¹⁰⁴ Earlier in his speech, Lewenza spoke in detail of the intense negotiations that preceded a multi-billion-dollar government rescue package for Ontario's automotive sector, potentially saving thousands of CAW jobs. Lewenza and the CAW had just experienced a "real world" example of Ontario's economic vulnerability: to them, the benefits of harmonization were more than just conceptual. Just as recession and dramatic job losses had prompted McGuinty's embrace of harmonization, the CAW's lesson resonated with union leaders across the manufacturing sector and, in turn, across the Ontario labour movement.¹⁰⁵

The content and delivery of Ontario's HST package also assisted in easing public angst. Don Drummond, in his retrospective assessment of the Ontario and BC experiences with harmonization, noted that the "public does not deal with surprises very well." In British Columbia, he argued, "policy was announced without context," whereas in Ontario "there was open communication, conditioning and ample analysis provided."¹⁰⁶ Drummond's reference to "open communication" in Ontario may be overstated,¹⁰⁷ but the comparison is otherwise accurate. Ontario's experience with harmonization demonstrated that a value-added tax could be accepted, at least grudgingly, during a recession.

¹⁰³ Quoted in Dave Teixeira, "CAW Memo: 'HST Will Have No Noticeable Impact on the Total Amount of Sales Tax,'" *Dave.ca* online, 3 July 2011, 1.

¹⁰⁴ Quoted in *rabble.ca*, 24 January 2010, 1. See also http://www.caw.ca/assets/pdf/Ken_report-deco9-final.pdf.

¹⁰⁵ See Jim Stanford's comments regarding Ontario's broader labour neutrality at www.progressive-economics.ca/2011/07/08/burned-by-toxic-hst-debate.

¹⁰⁶ Don Drummond, "Personal Reflections on the State of Public Policy Analysis in Canada," in *New Directions for Intelligent Government in Canada*, ed. Fred Gorbet and Andrew Sharpe (Ottawa: CSLs, 2011), 339. Jack Mintz opined: "Tax reform is an art and, unlike Ontario, which did a better job of selling the HST, the BC government failed to deliver the goods" (*Financial Post* online, 30 August 2011).

¹⁰⁷ The communication with Drummond and some business leaders may have been "open," but McGuinty's pre-budget consultations were selective, and, despite his strategic comments in the media pre-budget, many Ontarians were taken by surprise. See Rob Ferguson and Robert Benzie, *Toronto Star* online, 28 August 2009.

In the precarious world of tax reform, a proposal's success may hinge on the mutually supportive character of its component elements.¹⁰⁸ McGuinty's private consultations with business prepared HST supporters and advocates for the pending battle; British Columbia's more secretive approach did not. McGuinty's pre-budget strategic musings conditioned the media and, to a lesser extent, the public for the harmonization initiative. British Columbia's surprise HST announcement only weeks after the 2009 election provoked unprecedented public anger. The Campbell government had grown to appreciate the technical merits of harmonization in the weeks prior to announcement, but those merits held little credibility among an unprepared and indignant populace. Harmonization was a very "tough sell" in Ontario,¹⁰⁹ but the McGuinty government's explicit acknowledgment of the HST's short-term impact on consumers, and the corresponding and generous package of mitigation measures, reinforced the credibility of the initiative and undermined the inevitable accusations of "tax grab." Such accusations, in contrast, resonated and persisted in British Columbia. Shortly before the 2011 HST referendum, the BC government (now led by Campbell's successor Christy Clark) offered up substantial new incentives, but they were too late, if not too little, to stem the tide of anger reflected in the Recall and Initiative Act petition.¹¹⁰ Such incentives may have made a difference had they been offered on 23 July 2009, but they were not.

When asked in September of 2010 if – like Gordon Campbell – he would hold a provincial referendum on the HST, McGuinty said, "We're going to have an election in October 2011 – at that time people can pass judgment on us on all our tax reforms."¹¹¹ By August of 2011, "high taxes" had slipped to fourth place behind health, the economy, and education as "top-of-mind" concerns, and McGuinty was by a small margin still considered the most trusted leader on taxation.¹¹² The HST faded to insignificance by provincial election day, supplanted by health and gas-plant cancellation "scandals." The HST lives on in Ontario, as

¹⁰⁸ Manitoba offers a more recent example of tax-induced public anger and consequent political turmoil. After resisting the opportunity for harmonization, the Greg Selinger provincial government increased the PST from 7 to 8 percent in 2013, a possibility the premier had dismissed as "ridiculous" and "total nonsense" in the 2011 election campaign. Cited in *Huffington Post* online, 28 December 2014.

¹⁰⁹ The phrase comes from Dwight Duncan, who acknowledged he was "bracing for a potential backlash from consumers." See Karen Howlett, *Globe and Mail* online, 17 November 2009.

¹¹⁰ Those measures included a reduction of the HST from 12 percent to 10 percent as well as child and seniors HST transition payments.

¹¹¹ Robert Benzie, *Toronto Star* online, 15 September 2010.

¹¹² Martin Regg Cohn, *Toronto Star* online, 28 August 2011.

does the Liberal government, albeit under new leadership.¹¹³ In British Columbia, the Liberals surprised many by winning a larger majority in 2013, but the HST has returned to the policy stream awaiting consideration by a future generation.¹¹⁴

CONCLUSIONS

Ontario and British Columbia long resisted tax harmonization with the federal government. Economic recession, with mounting job losses and collapsing revenues, led both provinces to confront the political risks of harmonization – risks that neither would have taken in more robust economic times. The substantial federal HST transitional grants offered an immediate fiscal lift in a time of great uncertainty, while harmonization promised in the longer term to stimulate investment and hasten economic recovery.

Ontario experienced a rapid downturn in 2008, and Premier Dalton McGuinty needed a policy solution to his province's perplexing economic problems. He was able to couple a viable policy solution (harmonization with \$4.3 billion attached) proposed by a credible source (one of Canada's leading economists) to seemingly intractable economic problems. McGuinty was convinced of the long-term need for harmonization to maintain and enhance Ontario's economic competitiveness; based on that belief, he was prepared to stake his political career on a potentially toxic new tax within fifteen months of a provincial general election.

The Ontario government explicitly constructed its ambitious tax reform package on lessons learned from the introduction of the GST in 1990. Ontario made the HST just one element in a generous tax reform and consumer transition package, sagely surmising that the imposition of broad-based goods and services taxes needed to be softened by personal tax cuts and transition cheques. Ontario's package also included a "lifeline" to business in the form of tax cuts and cost reductions associated with harmonization, something which (thanks to McGuinty's early consultations) business wanted, expected, and overtly supported. The McGuinty government did not forget that a technically proficient solution still required a politically effective demand.

¹¹³ McGuinty was re-elected but with a minority government. Kathleen Wynne succeeded McGuinty and surprised many observers with a majority Liberal win in the 2014 Ontario provincial election.

¹¹⁴ Ironically, Prince Edward Island introduced its HST on the same day (1 April 2013) that British Columbia returned to the PST. PEI reduced its PST by 1.5 percent as part of harmonization.

The deepening economic recession, along with Ontario's decision to harmonize, prompted the BC Liberal government to consider and then quickly to adopt the HST. However, Premier Gordon Campbell was not initially persuaded by the economic case for harmonization, as McGuinty was by the Drummond report. Harmonization was not considered as an option until after he learned of British Columbia's escalating deficit. The Campbell government believed that the competing goals of harmonization and deficit containment could be achieved within a spartan HST package largely devoid of transition measures for consumers. Its package relied on a sceptical public accepting prospective benefits when faced with the pending reality of increased taxes on a broad range of goods and services.

When opening a policy window, Kingdon argues, politicians "need to ask themselves before unlatching it whether they risk setting in motion an unmanageable chain of events that might produce a result not to their liking."¹¹⁵ Undertaking a major tax shift within weeks of a provincial election campaign, in which such a shift was never discussed, proved a politically fatal miscalculation for Campbell. He did not publicly share the ugly, recession-driven challenges facing his government and, as a consequence, British Columbians were entirely unprepared for his government's potential solution of tax harmonization. The remarkably tight timelines for implementing the HST precluded meaningful consultation and, in combination with a hasty announcement, produced too many unanswered questions, a vacuum that critics quickly filled with the worst assumptions about the government's motives. Neither Campbell nor his government anticipated that the ensuing public anger could be effectively harnessed through the Recall and Initiative Act. In the absence of politically effective demand, public distemper would not be mitigated by the technical proficiency of the HST, bringing an early and disharmonious end to tax harmonization in British Columbia.

¹¹⁵ Kingdon, *Agendas*, 177-78.